

START YOUR SOCIAL ENTERPRISE



In association with



About RBS

(who kindly sponsored this guide)

Supporting the Social enterprise sector is an integral part of RBS's strategy to support enterprises and help them achieve their ambitions. Supporting enterprise is not just about providing banking products and services. It is about taking a longer-term view of how we work with customers and wider communities to help them become more sustainable.

To achieve this, we work with partners and networks to create opportunities for businesses which have traditionally struggled to access financial services. By helping unleash the entrepreneurial talent across the UK, we hope to maximise our impact by delivering business expertise in the communities in which we operate.

Our long-established Community Banking team exists to support enterprise with a social purpose and help to promote sustainability, and develop the social finance & investment marketplace by working with groups and organisations facing particular challenges in accessing finance and starting up or growing their businesses. These activities also help to support the professionalisation of the sector and open up access to financial services for socially-excluded groups. This underlies the RBS Group's commitment to supporting enterprise, sharing our customer's ambitions and delivering business expertise.

We also support the RBS SE100 Index because, like any other part of the economy, it is important to gather as much market intelligence as possible. This information is invaluable in helping the social enterprise sector to flourish.

We provide a range of banking products for charities and social enterprises. These organisations can also benefit from the wide-ranging support provided by our Community Banking team. We also offer more specialist support, delivered through more than 100 Community Ambassador Relationship Managers across the UK.

Social Enterprise UK is working with RBS to build knowledge and awareness of social enterprise among its frontline banking teams. Our aim is to make it easier to set up and run a social enterprise.



About this guide

Social enterprise is an exciting and fast-growing sector and movement – both in the UK and around the world. More and more people want to do business and do good at the same time, and this is what social enterprise is all about.

Setting up a social enterprise – or changing an organisation from a charity, public sector or private business into a successful social enterprise can be a daunting, exhilarating and challenging experience. But it's one that the UK's successful social enterprise leaders will tell you they are very glad they had. You can sometimes feel alone on the journey – and that's why it's vital to learn from the experiences of those who have gone before you.

With that in mind, we've produced this highly practical guide – extracted from 'Your Chance to Change the World', a book by leading social entrepreneur Craig Dearden-Phillips – to give you the knowledge, confidence and inspiration to make your idea a reality.

There's a lot of information out there for start-ups, and this guide takes you through the essentials, but we focus on the parts that are most important in a social enterprise.

Social enterprises have some unique challenges. For example in a social enterprise you don't just have to worry about keeping the customer satisfied. You have to satisfy your social ambitions too – whether that means serving a community, protecting the environment or solving a social problem. This guide is intended to help you get your head round the essentials.

Throughout the guide we've provided some words of wisdom from social entrepreneurs – they tweeted us their advice – what they wish they'd known when they were starting out.

We wish you every success on the journey. And we'd like to help you on the way – please join Social Enterprise UK, the membership body for social enterprises. Visit www.socialenterprise.org.uk or email membership@socialenterprise.org.uk

Business is a powerful force for change. When the forces of business and social justice come together, amazing things can happen. They are already happening all over the UK, which is widely regarded to be a world-leader in social enterprise. Social enterprises are using business to tackle social problems, improve communities, improve people's life chances and protect the environment. They are creating shared wealth and social justice. If you're new to social enterprise and want to know more please visit www.socialenterprise.org.uk. You might want to read our beginners' guide, **Social Enterprise Explained**. If you're working in the public sector and want to create a social enterprise you might want to read our Spin-out guide, **The Right to Run**.

About Social Enterprise UK

Together with our members we are the voice for social enterprise. We do research, provide information and tools, share knowledge, build networks, raise awareness and campaign to create a business environment where social enterprises can thrive. Everything we do is done with and through our members. We have a network of almost 9,000 organisations and operate a very busy website. We also have a lively and growing social media presence. Follow us on Twitter [@SocialEnt_UK](https://twitter.com/SocialEnt_UK) or visit us at www.socialenterprise.org.uk.

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1. Getting started

Why Social Enterprise?

There are lots of reasons to make your venture a social enterprise. First and foremost, if your fledgling business has a social purpose and you are going to trade to fulfil it, then it sounds like it already is a social enterprise. Formalising this by using some of the business methods described below should help you be successful in the long run. And being part of a growing, thriving sector, meeting your peers and learning from other pioneers should help you survive and enjoy the journey. There are other benefits – for example many local authorities give business rate relief to identifiable social enterprises, saving considerable costs to those that apply and qualify for it. For more information please visit www.socialenterprise.org.uk

What makes it “officially” a social enterprise?

Social enterprise is not a legal term, but an approach. The phrase is used to describe businesses that exist for a social purpose. You can't register your business legally as a social enterprise. There are various legal forms that are used to incorporate social enterprises. In the end, being a social enterprise is about adopting a set of principles. These include:

- **Having a clear social and/or environmental mission (set out in your governing documents)**
- **Generating the majority of your income through trade**
- **Reinvesting the majority of your profits to further the social mission**

This is regardless of what form the organisation takes. So if you have these in place – you are acting as a social enterprise.

Your first business plan

Why Social Enterprise?

One of the first things you will need is, of course, a business plan. Before you start to plan your venture in detail, you first need to ask yourself whether your idea has 'legs'. There will be some hard thinking to do before you invest lots of time, money and energy into something. Ask yourself:

- **What am I trying to achieve and is a business the way to do it?**
- **What will my business do?**
- **Who wants to buy my product or service?**
- **How will the business operate?**
- **Who will benefit?**
- **Can I explain my business simply and concisely?**
- **What is the long-term purpose of the business?**
- **Why do I want to create this business?**
- **What will my business be known for?**
- **What's it going to look like in five years?**

2. The Social Enterprise approach

Whatever your business is all about, you will need to think all of these points through in a hard-headed way. Here are some of the critical questions for a social enterprise:

What is your offer?

Every new business or charity needs to solve a problem. The key questions facing any new venture are:

- **Where's the pain? What problem are you trying to solve?**
- **Who, exactly, are you seeking to help?**
- **What is distinctive or new about your approach to this problem?**

Who will pay for what you do?

The question of 'who pays?' is always more complex than simply planning to sell lots of products or services. Sales may form part of your income but there may be an element of grant funding, sponsorship or 'giving'. Many social enterprises need support in the form of non-trading income, especially to get off the ground. But in the end what makes it a social enterprise is the ability to do good through doing business, rather than through charity donations.

Who is the competition?

Make a frank assessment of the sector you are in and the strengths and weaknesses of other organisations working in it.

What's your business plan?

Your business plan should be short and to the point – no more than 20 pages. It should answer all the big questions facing your new venture such as: What vision of the future are you working towards? What is the purpose or mission of your new venture? Who else is in your field or is competing with you?

It should start by setting out clearly:

- **Your vision:** What are your ambitions? In an ideal future, how will the world be different because of what your business achieves?
- **Your mission:** What, in concrete terms, are you hoping to achieve?
- **Your goals:** How is your mission going to be turned into reality? What specific actions are you going to take – and over what timeframe?

To understand more about the basic elements of business planning, go to www.socialenterprise.org.uk or www.businesslink.co.uk. Business Link has lots of general information for start-ups and should give you some food for thought.

Case study: Women Like Us

In 2004, Emma Stewart and Karen Mattison, two former colleagues both found themselves in the same position. Both were mums to young families, who wanted to balance work with family. Like many women, they decided to look for part time work at their level of skill and experience. And, like many women, a year later, they had still found nothing. Realising that there was a gaping 'part time' shaped hole in the recruitment market for professional roles, and refusing to believe that businesses wouldn't want the skills of candidates with 10-15 years experience, just in part time hours - they decided to tackle the problem head on.

In 2005, they launched Women Like Us, a recruitment firm specialising in part time work, structured around the social aim to help women to find jobs they can fit with family. Women Like Us solves three parts of the problem – building a community of candidates who are looking specifically for part time work, providing them with advice and support and recruiting staff from amongst them for employers who need talented candidates with experience. Women Like Us offers its candidates workshops on tackling CVs, interviews and career direction (offering a number of free places to those from low income backgrounds).

Women Like Us is now a multi award winning social enterprise with 30,600 women on its books and has recruited staff ranging from part time IT managers through to part time Heads of Comms. It finds staff for small businesses all the way through to employers such as Santander, Ofcom and Tesco. In 2010 Karen and Emma were made MBEs



Advice from Karen Mattison:

1. Never give up – when doors are closed on you, push on them!
2. If you have a voice that tells you it might be too late to make your dream come true – ignore it. You regret what you don't do, more...
3. Sure you want to go it alone? If you know someone who shares your vision and your values - start up with a friend. My co-founder Emma and I launched Women Like Us together, which allowed us to both make time for our families and 'live' the values of part time working... and we still haven't had a row after 6 / 7 years in business together!

Doing good business

Social enterprises often concentrate on the social side of their businesses at the expense of the commercial side. By the time you've looked after your staff and stakeholders, there's a risk there could be little left for the paying customer. It's easy to get the balance wrong, but if you do the result could be that you lose your customers, swiftly followed by your business – and your staff.

Successful businesses – whether social or not – do five things extremely well:

1. They obsess about customers' needs and strive hard to make customers happy.
2. They shape their message or brand to fit their target market.
3. They achieve the right 'marketing mix' – a blend of price and presentation that outshines the competition.
4. They negotiate good deals.
5. They deliver their products and services to a very high standard.

Knowing your customers and stakeholders

As a social enterprise you will most likely have to juggle different kinds of customer and stakeholder relationships from 'normal' businesses – all of which will make demands on your time. You will have your customers – the people who buy your products or services. You will also have your beneficiaries – the people your enterprise exists to help. Chances are you will also need to maintain strong relationships with stakeholders such as funding bodies.

Negotiating all these relationships can leave you feeling pulled in different directions – so how do you do it? First, keep the business in balance – don't ignore the money-making side of things. Second, be brutally honest about what is achievable. Have honest discussions with beneficiaries about what is achievable on the social side. Wherever possible, involve beneficiaries in the running of the business. Social enterprise can be an excellent tool for empowering people – workforce and communities.



Flavrbox.com @Flavrbox says:

@SocialEnt_UK - how important it is for the vision to be aligned with all the team as well as having clear role and responsibilities!

Getting the marketing mix right

The 'marketing mix' is a useful way to think about what your new venture is offering. Think of your services as having four dimensions:

- **Product** – What are you offering to the customer?
- **Price** – What do you need to charge to supply the product or service?
- **Place** – Where is the customer going to 'shop' for your product?
- **Promotion** – How are you going to encourage customers to buy your products?

3. Finding investment and funding

Defining your brand

What relevance does branding have to your new venture? In short: everything. Brand isn't about just having an expensive logo - it goes far deeper than that. Brand is about the values and feelings people associate with your new venture's name and it is communicated in the way your organisation sounds and acts. At the beginning, define your brand and think about what you want other people to know, think and feel about your business.

Negotiating good deals

Good negotiation is about four things: understanding what you hope to achieve from a given deal, knowing what the other side is looking for, looking for 'win-win' solutions every time. Finally, it's all about understanding what your 'best alternative to a negotiated agreement' (BATNA) is and using it as your benchmark throughout a negotiation process.

Negotiating contracts

Nowhere is negotiation more important than in the drawing up of contracts. A contract is a binding legal agreement which normally specifies deliverables, price and timing of payment. It also enshrines the balance of risk carried by each party.

simon paine @simonjpaine says:

@SocialEnt_UK fall in love with ideas don't be seduced by them; make friends with some 1 who knows more than u; join/form group of like minds



1. Setting out

The economic climate is tough and getting tougher so securing early funding or investment for your venture will probably be one of your biggest challenges. It's worth understanding how you go about finding investment as well as what potential sources are out there.

The importance of networking

Whilst networking is incredibly important for budding social entrepreneurs, the key skill isn't working out what you need from others (that should be easy) but working out what others might need from you. Great networkers are generous to others as they hope others might be to them. Networking is also a key skill in raising funds and a great source of up-to-date information. Use social networking and always be on the lookout for events, trade shows and meetings to build your network.

The importance of raising your profile

Being known and understood is a pre-requisite to raising money. Profile-raising also enables you to punch above your weight as an organisation. Having a profile helps a funder to feel more confident about you. Think about how you can generate media interest in your work and use the stories of the people you are helping through your venture.

The importance of being able to sell

Like most things, selling is a skill that can be learned. Mike Southon, author of *Sales on a Beermat*, says that the principles of selling are very simple:

- **Be liked** – People buy from people they like, not those they don't.
- **Qualify** – Ensure you're talking to the right person – always talk to the decision maker.
- **Close** – Make the ask. We often avoid cutting to the chase, especially if money is involved. But the cliché is true – if you don't ask, you don't get.

Attitude is everything

You don't have to be a genius to raise money but you do need to have the right attitude. This starts by accepting, deep-down, the fact that your organisation doesn't have the right to exist – nobody owes you a bean. Accept this and you're half-way there. From here, the right attitude involves a level of enthusiasm and enjoyment. As you'll see, funders can detect this – it inspires them. They like individuals and organisations that present themselves in a positive and compelling way.

How to handle the all-important sales pitch

So, you're there, the big meeting. You've got half an hour. What do you actually do? First off, spend no more than five minutes explaining your vision and mission. Most people can't take much more than a five-minute speech. Stick to the real basics – who you are, your vision, and use examples to show your vision in action. Everyone likes to hear inspiring stories. Don't rely too much on facts and figures at this stage, just a couple of 'killer stats' will do. Towards the end of your short presentation, turn the focus onto your host: how can you help your potential funder? What do they get for the money they give you – how do they get their objectives met? After the presentation, the meeting should evolve into a conversation. At this stage, you'll know if the person might be interested in what you have to offer. Their body language will be positive. Now it's time for you to stop and to give them time to ask questions or talk themselves.

2. Where to start

Whether you're starting out or looking to grow, you will probably need access to some form of finance. So where can you go? This section goes through the various types of finance out there, the benefits of each and where you might go to get some.

Main types of finance

Grants can be great as they don't need to be repaid, and they can really help in the early stages, but there are some drawbacks. They can be inflexible and can often only be used for very specific purposes. They can also limit an organisation's ability to raise finance through other means as they often don't allow you to make any surplus and therefore build reserves.

Venture philanthropy is a type of grant that aims to apply the hands-on management techniques of venture capitalists to grant-making. Grants are given but in a form resembling investment, and the venture philanthropist may wish to be 'hands on' in the organisation.

Debt finance is usually available as a commercial loan. These can usually be put to more flexible use than grants. They are also assessed on their own merits rather than against other applications as is the case with most grants. The disadvantage is that not only will the loan need to be repaid, usually with interest; lenders will often look for security over assets, such as land, buildings or equipment or even a personal guarantee on the loan, which may be a big risk to consider.

Equity finance involves the exchange of finance or capital for part-ownership of the business.

Quasi-equity is a form of debt that has some traits of equity, such as having flexible or performance-related repayment options.

What do you need the money for?

Different circumstances and needs lend themselves to different types of finance. For example, social enterprises often use grant funding to start up new income-generating activities and then look for non-grant finance as the enterprise develops to become more self-sufficient. Commercial finance is often called for when a specific financial need has arisen or long-term planning requires financial sources beyond grants and generated income. Examples include purchasing property, managing ongoing cash needs, funding a growth in operations and renovating a building.

Amount of finance

How much finance you need will also affect your options as some finance providers have limits on what they will lend or give. Grants vary in size depending on the grantmaker. Commercial banks often don't consider loans for less than £10,000 but can consider much larger sums. Equity finance tends to start at even larger sums, typically £250,000 or higher, although some providers might make smaller investments.

Your legal structure

The legal status of your organisation may affect the forms of finance you can use. For example, many social enterprises are registered as companies limited by guarantee, a legal form that does not allow companies to raise equity through issuing shares.

Your business model

Finally but most importantly the type of finance you raise must be suited to your business model. It is important to consider things such as the stage of development of the enterprise; the market in which it operates; the management and capacity of the enterprise to carry out its strategy; and the enterprise's self-sufficiency and/or the sustainability of grant funding.

3. Sources of finance and funding

Funding Central is a website that provides access to thousands of funding and finance opportunities and tools and resources supporting organisations to develop sustainable income strategies that meet their needs.

www.fundingcentral.org.uk

Finding Finance is a tool for finding finance from Community Development Finance Institutions (CDFIs).

www.findingfinance.org.uk

ClearlySo is an online marketplace for social business and enterprise, commerce and investment.

www.clearlyso.com

The Social Investment Market in the UK, is a guide produced by JPA group which includes an appendix of UK Venture Philanthropy Funds, Social Venture Funds, Social Investment Funds and Infrastructure Organisations.

www.jpa-group.com/publications.aspx

Please also see the NCVO website and Social Enterprise UK's forthcoming guide Social Investment Explained

Grant-making trusts

There are around 400 trusts you can apply to for funding and a number of guides and web-based products available that list them. However, trusts vary widely in their character and remit so it's worth making sure that you apply to one that aligns with your business. You can find more details here <http://www.grantfinder.co.uk/> and <http://www.fundingcentral.org.uk/Default.aspx>.

Big Lottery gives over £630 million a year. It is still a very good place to look for money for your organisation, particularly in its early days. (www.biglotteryfund.org.uk)

The Esmée Fairbairn Foundation funds the charitable activities of organisations that have the ideas and ability to achieve change for the better. They support work that might otherwise be considered difficult to fund.

www.esmeefairbairn.org.uk/

www.trustfunding.org.uk

Funds aimed at start-ups

There are now a handful of organisations that specialise in helping social entrepreneurs. The most prominent of these is UnLtd (www.unltd.org). UnLtd is the Foundation for Social Entrepreneurs and gives out awards – these are packages of cash and support – to social entrepreneurs in the UK.

Venture philanthropy organisations

The Impetus Trust is a venture philanthropy organisation.

www.impetus.org.uk

CAN runs a venture philanthropy programme called CAN Breakthrough. This provides funding and management support to help established social enterprises scale up and maximise their social impact. Funding is concentrated on established organisations with three years trading.

www.can-online.org.uk

Social investors and social lenders

Big Issue Invest is a specialist provider of finance to social enterprises or trading arms of charities that are finding business solutions to create social and environmental transformation. They provide finance for social enterprises in the form of loans, participation loans and equity, offering finance between £50,000 and £500,000. They can also arrange finance in partnership with other social finance institutions for amounts over £500,000.

www.bigissueinvest.com

Bridges Ventures funds have specific strategies to achieve a positive social and/or environmental impact. Bridges Ventures have £150m under management in two venture funds, the Bridges Social Entrepreneurs Fund and the Bridges Sustainable Property Fund.

www.bridgesventures.com

CAF Venturesome offers social purpose organisations support and capital, recognising that this type of investment may fall outside of the criteria of grant-makers and is often perceived as too risky for banks.

www.cafonline.org/Venturesome

The Social Investment Business helps social enterprises, charities and community organisations prosper by providing innovative financial and business support.

www.thesocialinvestmentbusiness.org

Social Finance provides a range of financial advice services to help build the social investment market. They are dedicated to finding ways to raise capital through robust investment propositions.

www.socialfinance.org.uk/

There are many other lenders – please also see **Charity Bank**, **Triodos** and **Unity Trust**, for example.

4. Writing successful bids and proposals

Fundraising is becoming more and more competitive in the UK. As a new, small organisation, you may need fundraising more than sales to get started. Faced with this, what do you do? How should you approach the myriad of funding agencies out there? How should you prioritise? How do you differentiate yourself? Before you start applying anywhere, you need to think about a number of things:

- **Write a funding strategy**

Most organisations, even new ones, consist of a number of different work streams. You need to break your venture down into fundable blocks of work. How you do this is up to you but you will need to parcel up your operations in ways that make sense as individual projects.

- **Develop a budget that includes all your costs**

It is quite common, especially early on, for funders to ask for the core costs of a project without asking for full organisational overheads. People sometimes don't know how to cost these or think they'll do better if these core costs are excluded. Don't make that mistake.

- **Research possible funding organisations**

When faced with a large number of possible sources of funding it is tempting to adopt a 'scattergun' approach. However, it is far better to identify a small number of funders that seem a good fit – for example, target those who fund start-ups. The best guides to funding are produced by Directory of Social Change and can be ordered from their website (www.dsc.org.uk).

- **Research the need**

You have become a social entrepreneur for a reason. Know your reason inside out. You need to be able to describe, in exact terms, the nature of the need you're in business to meet. This is your 'market' – you have to be authoritative and you must be able to talk about the need in a convincing way. As a new social entrepreneur, you need big statistics, personal examples or stories, an explanation of why others are failing and why it's right that you should set up this enterprise yourself.

How to write a successful bid

- **Always follow the bid guidelines**

It seems obvious but it's surprising how many people fail to do this and render their bid useless. Nearly all organisations that give or lend money invest a lot of time in their guidance to applicants. Ignoring this goes down badly so whatever you do, stick to the brief.

- **Assume they know nothing about you**

When you're setting up your organisation you live and breathe it. This is fine until you start trying to talk to other people who find what you do deeply obscure. Remember you're writing for a person. This person is, at best, an intelligent onlooker, not a specialist. They need the basics spelled out to them.

- **Think 'inputs, outputs and outcomes'**

It's easy to write bids that don't differentiate between the above. This results in a confusing jumble. Funders increasingly look at potential projects, both formally and informally, under these headings so make it easier and spell it out for them. Here is a basic explanation of the difference:

Outputs

An activity usually results in something demonstrable or countable. These are outputs – what you have done or created. Outputs are usually finite – either items created, such as a report or number of items you have produced, or numbers of people who have received skills training. While outputs are often the first step in creating the longer-term change you are looking for, they are not enough by themselves to be that change. It is the outcome that is the result – the change you are looking for.

Outcomes

The changes that result from your organisation's activity – for people, communities, the economy or aspects of the natural or built environment. They come either wholly or in part as a direct result of the organisation's actions (or outputs). Outcomes are sometimes planned and therefore may be set out in an organisation's objectives. Indicators that the outcomes have happened are what an organisation measures to know that it is meeting its objectives.

- **Find a good name**

Names matter more than you might think. Get it right and your project will appear energetic and imaginative. There's a lot in a name, as any successful business will tell you. Whatever you do, avoid acronyms and complicated sounding names.

- **Write in a compelling style**

This means imposing a few rules on yourself. No long, rambling sentences and one idea per sentence. Your bid has to be something that is simple to read and inspires confidence. When you've written a bid, give it to somebody you trust and who works in another field to review.

After you've written your bid

- **Before you send it, check it**

You've invested a lot of time in writing your bid so make sure it isn't spoiled by a silly error or through missing a vital piece of information.

- **Call to check it has got there**

A positive interaction at this stage is important because it means you're likely to be remembered more than the others who haven't called.

- **Make the most of the interview**

If you're offered an interview, do everything you can to make it in person rather than on the phone. Offer them a visit to your premises to see you working in action and if they take you up, inspire and excite them – show how you're changing people's lives.

- **Start creating the relationship**

You've done it! They've given you the money – now the work starts. On the whole, funders prefer long-term relationships, so it's worth giving them your constant attention throughout the relationship.

4. Deciding on your legal structure

It's easy to become bamboozled by the whole business of registering your social enterprise. Today, there's a lot of advice about legal structure for social entrepreneurs, and a good place to start is Social Enterprise UK's 'Keeping it Legal' booklet available from www.socialenterprise.org.uk.

Incorporated vs unincorporated?

As the founder of a new venture, you'll need to decide on the most suitable structure for it. If you start as an unincorporated association, you need to know that you will be carrying all the responsibilities of the organisation personally. Incorporation – the act of putting your new venture into a company – puts clear legal water between you and your venture. This means your new venture can enter contracts or agreements with others as a legal entity separate from you. The business can, in its own right, sue and be sued, employ people and make them redundant, accumulate surpluses or make losses.

However, there are some reasons why you may not want to incorporate:

- **If income is tiny** – Your turnover may be so low, particularly early on, that you are not putting your personal finances on the line.
- **Tax advantages** – As an unincorporated sole trader you can pay tax in arrears.
- **Low regulation** – As an unincorporated business, you are not obliged to file annual returns and accounts to Companies House.

The different types of incorporated and unincorporated business structures are all explained on the Business Link website: www.businesslink.gov.uk.

The six key benefits of incorporation for a social enterprise are explained on Social Enterprise UK's website: www.socialenterprise.org.uk.

The company

There are three principal options if you want to incorporate your venture as a limited company: company limited by shares (CLS); company limited by guarantee (CLG); and either of these forms can also be incorporated as a community interest company (CIC). Limited companies exist in their own right. This means the company's finances are separate from the personal finances of their owners.

The company limited by shares (CLS)

The company limited by shares is the most common legal form for all business. When incorporating a CLS, share capital is divided into shares of fixed amounts and these are issued to shareholders. The shareholders become the owners of the company. A CLS is not specifically designed for social enterprises but it can be adapted for this purpose. Social Enterprises that choose the CLS structure ensure that their social mission is written in their governing documents along with what they intend to do with their profits.

The company limited by guarantee (CLG)

Companies limited by guarantee do not have shareholders, they have members instead. These members are the company's guarantors rather than shareholders. Because the members do not own shares in the company they cannot personally profit from any increased value in the company. The CLG is common for social enterprises.

The community interest company (CIC)

The CIC is a legal structure designed specifically for social enterprises. It is based on the standard company structure and can therefore be limited by share or by guarantee.

However it has some additional protections in place when it comes to the organisation's social mission. Both forms of CIC must serve a community interest and be able to report on how it is serving this interest each year. Both have a statutory asset lock which ensures that the assets are retained within the CIC for community purposes. When it comes to the distribution of profit only CICs limited by share are able to distribute profits. There are however, considerable restrictions on how much profit can be taken out of a CIC in any year.

More information on the various legal structures of can be found on the Companies House website www.companieshouse.gov.uk and www.cicregulator.gov.uk.

What about charitable status?

The key feature of a charity is that it is established exclusively for charitable objects as defined in the Charities Act 2006 (see www.charity-commission.gov.uk).

Many social enterprises are trading charities - this is particularly useful if organisations have a mixed revenue model that relies on an element of fundraising. However it is important to note that charities, can only trade in pursuit of their charitable object (termed 'primary purpose trading'); so if your business is set up to advance education you can only sell services connected to education. You couldn't sell chocolate or graphic design services for example, because that in itself wouldn't forward the cause of education. To overcome this some charities set up a separate 'trading arm' - a company of some kind that sits underneath the charity.

Charitable Incorporated Organisations (CIO)

The CIO, is a new legal form for a charity that wants to be incorporated but does not wish to become a company. CIO's only have to register with the Charity Commission and not Companies House. This legal form was created in response to requests from charities for a new structure which could provide some of the benefits of being a company, but without some of the burdens.

So what is the right legal model for you?

This will depend on a number of combined factors:

- The balance of your mission between social and commercial goals.
- Your own need for control over strategy and decision making.
- The extent to which you care about owning a share in the venture.
- Your need for equity investment.
- Your need for grants and donations.
- The ethos and values of your new venture in terms of participation.

The Companies House website (www.companieshouse.gov.uk) is a good resource for finding out about how you register your new business (CICs are still registered through Companies House), how to appoint directors and how to file returns and accounts to HM Customs and Revenue. Go to the Charities Commission website to find full details of how to register as a charity. An industrial and provident society business must be registered with the Financial Services Authority (www.fsa.gov.uk).

	Company limited by share (CLS)	Company limited by guarantee (CLG)	Industrial and provident community benefit society	Industrial and provident cooperative society	Unincorporated association	Community interest company/CLG	Community interest company/CLS
Incorporated with own legal ID?	Yes	Yes	Yes	Yes	No	Yes	Yes
Limited liability for members?	Yes	Yes	Yes	Yes	No	Yes	Yes
Limited liability for directors/trustees?	Yes	Yes	Yes	Yes	No	Yes	Yes
Constitutional document?	Memorandum and articles of association	Memorandum and articles of association	Rules	Rules	Rules or constitution	Memorandum and articles of association	Memorandum and articles of association
Objects?	Any	Any	Must benefit community	Must follow co-operative ideals	Any	Community interest	Community interest
Charitable status?	Not usually	Can be	Can be	No	Can be	No	No
Regulator?	Companies House	Companies House	FSA	FSA	None	CIC Regulator and Companies House	CIC Regulator and Companies House
Fees for registration?	£20	£20	£100–£1,000	£100–£1,000	n/a	£35	£35
Debt financing available?	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Equity financing?	Yes	No	No	Yes	No	No	Yes
Protection of social purpose?	not guaranteed unless charitable	not guaranteed without charitable status	FSA has to approve changes	FSA has to approve changes	None/safeguards in constitution	As CLG	As CLS
Membership voting?	One vote per share	One member one vote	One member one vote	One member one vote	As per the constitution	As CLG	AS CLS

NB legislation is currently under review for Industrial and Provident Societies

This table shows you at a glance the different legal formats available.

5. Finding & keeping the best people

If you're going to deliver your vision, you'll largely be doing so through the good work of other people. Not only are people your greatest asset, they're also your biggest investment. How that investment performs depends on you so you'll probably need to spend more time on your people than you think.

Selecting people

If you're serious about changing the world, finding the right people to do it alongside you is very important. Find the wrong ones and your dream could be over. However busy you are, make the time to get personally involved in recruitment, especially when you're still quite small. For further information about the 'people' side, please see Craig Dearden Phillips' book *Your Chance to Change the World*, on which this guide is based. Available from www.dsc.org.uk

Martin Kinsella says:

'Have a clear vision, be bold and make your own weather'

Martin Kinsella is Chief Executive of P3, a social enterprise based in Ilkeston, Derbyshire, that operates across the east and west Midlands and in London. P3 has grown from under £1million turnover to £10 million since 2003. It has won numerous awards. P3 for the last 7 years has been at the very top of the Sunday Times Best Companies To Work For UK Top 100 List including the No.1 spot in 2007 and UK No.1 again in 2010.

6. Finding the right partners

Increasingly, partnerships (from formal partnerships and joint ventures to looser collaborations) are a feature of the way the world works. When it comes to sectors like automotives or software, many of the key players collaborate as well as compete – something that's occurring more in the social sector too. However, it's very important to understand what you are getting into and to get into the right partnerships at the right time and on the right terms.

Some of the reasons why you might want to partner with another organisation are:

- **To achieve major ambitions:** If you have a big vision, often it won't be possible to achieve it alone – you're going to have to work with others to make it happen.
- **To grow your organisation's capacity:** sometimes collaborating can help you build capacity quickly – you can buy or borrow another company's resources to enable you to meet larger challenges than you are equipped for alone.
- **To share risks:** Sometimes a project can be desirable but could also bring you down if it fails. Sharing this risk with another organisation can be a way to achieve the task yet reduce the chances of damage to your enterprise.
- **To bring skills on board:** Our goals often require skills and know-how we don't have in-house. A partnership can secure the key elements and enable you to gain a deeper understanding of those skills yourself.
- **To raise money or win contracts:** A coalition of organisations can present a much sought after holistic approach – something that separate bids can seldom achieve.

7. Keeping on top of the money

The six vital ingredients of a good partnership.

- 1 Clear and unambiguous benefits for all members of the partnership.
- 2 Efficient decision-making methods and processes.
- 3 Clearly agreed roles and deliverables – agreed upfront and written down – for each partner.
- 4 A fair spread of both benefit and risk between every member of the partnership.
- 5 A sensible and manageable amount of administration, meetings and paperwork for all involved.
- 6 There must be trust and mutual respect. In an ideal world the partners should have shared values.

Choosing more partners

Usually, whilst a partnership project is being developed, ideas are shared between a couple of initial organisations – but that may not be enough, you might need to bring more partners on board.

Looking for partners calls for thinking about who would be interested in your planned service and what it could offer. Questions to ask yourself when considering partnerships are:

- Who else offers what you do?
- What other organisations are involved in helping your client group?
- Which organisations could do more by adding your services or location as a base for their work?
- Which organisations could help you in planning the different aspects of your services?

Success or failure very often comes down to how well a social entrepreneur manages their money. Some of this is very simple, but very important to get right. Setting up a new enterprise means that, whether you like it or not, you're going to have to get intimately involved in finance. So, when starting out there are a few basic things you must quickly get in place:

- **Bank account:** Preferably with a bank that's easy to deal with and understands your business. You may well want to think about using a bank with a social mission (see above) as the supply-chains of social enterprises are often helpful in maximising their positive social impact.
- **Cash book:** A vital piece of financial record-keeping detailing all of the payments into and out of your business's bank account.
- **Sales invoice file:** Where you keep all the invoices that you send out to customers/funders.
- **Purchase invoice file:** Where you keep all the invoices you receive from others asking for payment.

Controlling your finances

Once you have the basics set up, you'll then have to start managing your finances. You have a number of important financial control processes at your disposal and while you need to understand how these processes work, you should think about hiring a freelance book keeper to do this for you. Otherwise, having a friendly accountant on your Board or somewhere in your support network can make a world of difference. It can save you a huge amount of time and money.

8. Governance

The basic elements of financial control include:

- **Bank reconciliation statement:** Explaining the 'reconciliation' between the cash book and the bank statement.
- **A budget:** In its simplest form, a plan of all your income and spending during the year.
- **Profit and loss (P&L) account:** Your P&L shows how well the company has performed in its trading activities.
- **Cash flow statement:** A document showing your expenditure and expected income.
- **Balance sheet:** A 'snapshot' in time of how the assets of the company are made up.

Building a board of trustees and directors

Unless you own your social enterprise company outright, you'll share decision-making power with other people – your board. If you're the one who has founded and set up your venture that can be a challenge because it's the board of directors – not you – who are responsible for the organisation's overall strategy and direction.

A really good board is critical to the success of your business in a number of ways:

- Individual board members may have expertise in a number of areas useful to the venture and can be called on to advise when needed.
- Some board members will have superb contacts and networks that can help.
- The board can provide you with important support for what you're seeking to achieve, as well as feedback on ideas and proposals.
- The chair of a board is an ideal strategic partner for you as chief executive.

Remember that suitable board needs to have a balance of skills and expertise. Here are some of the ones you may like to prioritise:

- **Finance skills:** Ideally, your treasurer will be somebody who comes from a finance background and can read and understand audited accounts.
- **User experience:** The people who live the kind of life that is typical of your user group, stakeholders or beneficiaries on the social side need to be represented.

- **Human resources skills:** It is useful to have a board member with a background in HR to advise and support you on staff problems.
- **Public relations skills:** It is very useful to have someone on board to advise you on attracting the right kind of public attention.
- **Senior management skills:** It is important to have one person on your board who can oversee the development of the organisation in terms of the way it is managed and run.
- **Entrepreneurial skills:** You need to have likeminded people on the board; somebody who forces the board to be enthusiastic about new ideas and encourages them to take risks.

Expanding your business from being small (up to 25 people) to being medium-sized (25–150 people) is an incredibly exciting – and challenging – experience. It's tough because unlike before, you probably won't be in full control and there are lots of risks to tackle. You'll most likely have to spend money improving the infrastructure of your organisation before you know whether you can pay for it and you'll have to put your trust in other people to take your ideas forward. There are a number of ways to scale up a business. For further exploration of this topic see Craig Dearden-Phillips' book *Your Chance to Change the World*, on which this book is based. Social Enterprise UK also plans to produce a further guide on this topic shortly.

Here are the basic possibilities for growing your social enterprise:

- **Organic growth:** Growing 'organically' – building your venture through gaining more business – is the most gradual way to grow. Whilst this can be appealing as it involves you keeping control of things, it can also be very slow. This type of growth model is better suited to complex businesses that are tough to replicate.
- **Franchising or replication:** Franchising helps you grow rapidly and means that you share risks with a franchisee – you don't take the full risk on yourself. With a franchise model you can quickly establish yourself as a brand, but you can lose control over the quality of the end product and if the franchise business fails, it can affect the parent company.
- **Acquisition:** Acquisition helps you grow rapidly but existing cultures can be resistant to being 'taken over'. Lots of money needs to be spent on business integration and takeovers must be very well researched.

10. Looking after number one

One of the hardest things about being a social entrepreneur is that you can quickly get tired, lonely and lost if you don't have a strong support network around you. With this in mind, it is worth, very early on, giving some serious thought to your own support needs.

Find a mentor

A mentor acts as a valuable guide who can help you create solutions to issues in your developing venture. Your mentor should also help you to believe in yourself and boost your confidence. They should ask questions and challenge, while providing guidance and encouragement. Time with your mentor allows you to explore new ideas, 'think aloud' and gives you a chance to look more closely at your own development and skills.

Use your support networks

Not all networking is about building the business, some should be about sustaining you as the person who's holding the business together – so never underestimate the importance of maintaining strong support networks. A group of supporters – people who believe in you and what you are doing – is important for you. This is not only for the 'leverage' this group can provide, but also for the psychological benefit of knowing you have a group of fellow believers behind you.

Don't stop learning

The desire and ability to learn has been identified as a key feature of successful social entrepreneurs. This doesn't necessarily mean formal learning but the desire to find out new information, develop new skills and look at things in new ways. To do this requires an investment of time. However, in the early days of a new venture, time is the one thing you might feel you don't have. But whatever you do, don't neglect your own learning needs. Visit other organisations, speak to people who have built businesses. Attend lectures and events, go to an evening class – do all you can.

Take care of yourself

Being a social entrepreneur can be tough, challenging, time-consuming and stressful so it's very important that you look after yourself and that you don't neglect your close relationships – and your holidays! The last thing your new enterprise needs is for you to burn out – you don't need to suffer to be successful.

Case study: Food Cycle

Kelvin Cheung, 27, is seriously interested in nutrition and wants people to have access to good healthy meals too. So, when he met the founder of a US initiative called The Campus Kitchens a couple of years ago, his mind started ticking over about how he could bring something similar to the UK.

The Campus Kitchens project sees university students collect good quality, leftover food from local supermarkets and restaurants so that they can then cook it at their college kitchens for people in need.

"There are four million people living in food poverty in the UK, from housebound older people, to single mothers on low-income. We also have obscene amounts of food being wasted all the time. I felt we needed something like Campus Kitchens in the UK," explains Kevin.

At the time, he was doing a Masters in International Development at the School for Oriental and African studies in London. But after his studies and a six month volunteer placement at youth financial social enterprise MyBnk, Kelvin got his idea running.

He soon received a couple of thousand pounds from UnLtd, the Foundation for Social Entrepreneurs, and some free office space from MyBnk. And, being a keen networker, he quickly made contact with the likes of Sainsbury's, Budgens, Wholefoods, Planet Organic and others, who were happy to let him have their surplus food for his new venture, called FoodCycle.

Case study continued

In total, Kelvin and the business have received nearly £40,000 of funding since 2008, including an UnLtd Level 2 award, an UnLtd Big Challenge Award and an Arthur Guinness Fund payout.

Local hubs

It's now two-and-a-half years since FoodCycle began and the organisation has spawned 13 'hubs' around the UK where volunteers collect food from local companies (within a one mile radius) and use it to create wholesome vegetarian meals for homeless people, students and refugees. In 2010 it was crowned Charity Times's Best New Charity of the Year.

There are four paid staff, including Kelvin (although he waited a year to earn any money) and each hub has a team of volunteers.

The entrepreneur is full of praise for the volunteers, who, between them, have put nearly 5,000 hours of work into FoodCycle since May 2009. They have served 18,000 meals and saved 7,000 tonnes of food waste.

"Each of the hubs charges what they think is manageable for their customers and any money made is put back into the business. For those most in need there is no charge," says Kelvin.

The buzz

He works very long hours, putting a large amount of his time into FoodCycle, as well as doing some part-time work as a fitness instructor. But he says he wouldn't have it any other way. "I wake up every morning energised. Running a social enterprise to me is like being in love, even though some people think I'm crazy or doing too much, to me it feels natural," he enthuses.



Kelvin's advice to start-ups:

'Having a close group of friends and fellow entrepreneurs to support you personally is very important, as being a social entrepreneur is often a lonely and hard road - and sometimes you just need someone to listen and chat with - leaving all the business plans and numbers behind. Don't forget to take care of yourself.'

11. Structured support

There are a range of organisations set up to help and support social entrepreneurs:

School for Social Entrepreneurs (SSE)

The SSE runs practical learning programmes aimed at developing the individual entrepreneur and their organisation. There are now a network of franchises around the UK.

www.sse.org.uk

UnLtd

Though better known as a source of funding for social entrepreneurs, UnLtd's Millennium Awards provide practical as well as financial support to social entrepreneurs in the UK.

If you win an award you will receive a complete package of tailored business support in addition to financial support.

www.unltd.org.uk

Striding Out

Striding Out was set up to help younger people embark on their social enterprise journey by providing a range of tailored support. The organisation now also run Branching Out, to work with the over 30s, and Reaching Out, to work with hard-to-reach groups.

www.stridingout.co.uk

Social Enterprise UK, Emerging Leaders Programme

Social Enterprise UK runs a structured programme designed to help emerging leaders to successfully take forward their social business ideas. The programme has been designed to help those from a social enterprise, community association or charity background.

www.socialenterprise.org.uk

Professional Support from your banker

Back in 2002, the transport needs of people living in the Mendip area of Somerset were met by a small voluntary organisation. While this organisation provided vital services for the inhabitants of many isolated, rural villages, its existence depended on the generosity of various local donors and funders.

"This meant the organisation was always going to be exposed to the risk of funding cuts, which would have been disastrous for the people who relied on the service," explains Mike Curtis who became chief executive of Mendip Community Transport (MCT), the organisation set up to take on and expand the service.

So, over the next decade MCT was built into a strong social business. It chose to bank with NatWest - part of the RBS Group, which appointed its local relationship manager Paul Gainey. "Because I live locally I understood the need for the service they provide and I could also help them run the organisation as a business," he said. Today, rather than relying upon short term funding, MCT has developed a sustainable business model whereby it competes for contracts with public sector organisations, such as health and education bodies. Any surplus from these contracts are reinvested to build the business, which has enabled it to grow a fleet of five minibuses into a fleet of 20, all wheelchair-accessible.

Mike says: "We now have a business with strong foundations that enables us to carry on investing in all the good things that community transport organisations do."

The RBS Community Banking Team has a track record in finding ways to support innovative and often unconventional ideas for enterprises that benefit local communities or tackle disadvantage. They are committed to understanding and sharing customers' ambitions and delivering expertise which can really help.



About the author

Craig Dearden-Phillips MBE has been described as a serial social entrepreneur and is founder or co-founder of seven civil society organisations. At the age of 25 he founded and became CEO and then Chair of Speaking Up (now VoiceAbility) a high-reputation UK disability social enterprise. In 2006, Speaking Up won the Charity Award for Disability, a Third Sector Excellence Award, a Queen's Award for Voluntary Service and a Community Care Award for Learning Disabilities.

Craig is now the Founding CEO of Stepping Out, which helps public services to become a social enterprise. He is one of the foremost speakers on the UK third sector, the author of a best-selling book, Your Chance to Change the World, and a regular columnist for The Guardian and Third Sector magazine. Craig has an MBA and is a Visiting Fellow at Ashcroft International Business School.

As well as being a school governor and a Trustee of social venture-capital investors Impetus Trust, Craig manages to fit in time to be an elected Councillor, serving as the Liberal Democrat Spokesman for Communities on Suffolk County Council.

To contact Craig go to www.craigdeardenphillips.com.

About the Directory of Social Change

DSC is the leading provider of information and training for the voluntary sector and publishes an extensive range of guides and handbooks covering subjects such as fundraising, management, communication, finance and law.

They have a range of subscription-based websites containing a wealth of information on funding from trusts, companies and government sources. They run more than 300 training courses each year, including bespoke inhouse training provided at the client's location. DSC conferences, many of which run on an annual basis, include the Charity Management Conference, the Charity Accountants' Conference and the Charity Law Conference. DSC's major annual event is Charityfair, which provides low-cost training on a wide variety of subjects.

For details of all their activities, and to order publications and book courses, go to www.dsc.org.uk, call 08450 777707 or email publications@dsc.org.uk.

Social Enterprise UK would like to thank Chris Smith of Swarm Communications for helping to create this guide.

Social entrepreneurs like Craig Dearden-Phillips are part of a growing group of pioneers who are passionate about using business to do good.

Setting up your business will rarely be easy and you'll meet many challenges along the way but with determination, passion and skill, they can be overcome.

The social enterprise movement is an incredibly exciting place to be and as a budding social entrepreneur, you are playing your part in changing the world for the better.

Good luck and best wishes for an inspiring journey ahead.

From Social Enterprise UK

The voice for social enterprise

Social Enterprise UK

We are the national membership body for social enterprise. We offer business support, do research, develop policy, campaign, build networks, share knowledge and understanding and raise awareness of social enterprise and what it can achieve. We also provide training and consultancy and we develop bespoke business and information packages for clients of all kinds.

Support for startups

Social Enterprise UK offers very low-cost or free membership to most start-ups. Joining Social Enterprise UK means you get access to our networks, heavily discounted products and services, free information and advice about your business.

If you are interested in joining please visit www.socialenterprise.org.uk/membership. To order copies of this guide, please email publications@socialenterprise.org.uk

We have a network of almost 9,000 organisations and operate a very busy website. We also have a lively and growing social media presence. Follow us on Twitter [@SocialEnt_UK](https://twitter.com/SocialEnt_UK) or visit us at www.socialenterprise.org.uk

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